

Message Text

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ACTION ARA-20

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SUBJECT: VENEZUELA'S CONSERVATION RESTRICTIONS ON OIL PRODUCTION

REF: CARACAS 3140

1. VENEZUELA'S CONSERVATION RESTRICTIONS ON OIL PRODUCTION CONTINUE TO BE SUBJECT OF ACTIVE INTEREST HERE, AND PRESUMABLY ALSO IN WASHINGTON. SEPARATE DISCUSSIONS WITH PRESIDENTS OF LOCAL AFFILIATES OF EXXON, SHELL, MOBIL, SUN, CHEVRON, AMOCO, AND PHILLIPS SUGGEST THAT HYDROCARBONS MINISTRY'S ESTIMATE THAT PRODUCTION WILL DECLINE BY 150,000 B/D (TO 3.1 MILLION B/D) UNDERSTATES CASE. COMPANIES EXPECT THAT TOTAL EFFECT OF RESTRICTIONS WILL BE TO REDUCE 1974 AVERAGE PRODUCTION BY 250,000 TO 350,000 B/D TO A LEVEL OF 2.9 TO 3.1 MILLION B/D. AMONG BIGGEST SUFFERERS FROM NEW GOVERNMENT RESTRICTIONS ARE CREOLE, SUN AND CVP, WHICH HAVE 100,000 B/D, 40,000 B/D, AND 30,000 B/D RESPECTIVELY OF PRODUCTION THAT IS SHUT IN AS RESULT THESE RESTRICTIONS.

2. THERE ARE DIFFERENCES OF OPINION AMONG COMPANIES AS TO MOTIVATION OF GOVERNMENT RESTRICTIONS. MOST SHOW SOME SKEPTICISM

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THAT CONSERVATION IS SOLE OR PRINCIPAL REASON FOR RESTRICTIONS,

ALTHOUGH ALL ADMIT THAT RESTRICTIONS CAN REEASONABLY BE JUSTIFIED ON CONVERSATION GROUNDS. ONE COMPANY HEAD HERE OBSERVED THAT A SMALL OIL COMPANY (SIGNAL), WHICH HAS ALL OF ITS WELLS OPERATING AT EXCESSIVE GAS/OIL RATIOS, HAS NOT HAD ANY OF THEM SHUT IN BY MINISTRY. THIS COULD INDICATE THAT MOTIVATION IS NOT CONSERVATION OR IT MIGHT MERELY INDICATE THAT MINISTRY DECIDED TO MAKE EXCEPTION FOR SMALL COMPANY THAT WOULD OTHERWISE BE WIPED OUT.

3. SEVERAL OTHER POSSIBLE EXPLANATIONS - OTHER THAN CONSERVATION - HAVE BEEN OFFERED TO EXPLAIN GOVERNMENT'S DECISION TO IMPOSE MORE STRINGENT GAS FLARING AND GAS/OIL RATIO RESTRICTIONS. GOVERNMENT MAY HAVE MERELY WANTED TO REDUCE PRODUCTION AS A CONTRIBUTION TOWARD EFFORT TO KEEP OIL PRICES FROM FALLING. OR, IT MAY HAVE THOUGHT IT POLITICALLY EXPEDIENT TO MAKE A SMALL CONCESSION TOWARD SIGNIFICANT SEGMENT OF CONGRESSIONAL AND PUBLIC OPINION THAT SUPPORTS POINT OF VIEW LONG ESPOUSED BY PEREZ ALFONSO IN FAVOR OF REDUCING OIL PRODUCTION. A MORE MACHIAVELLIAN INTERPRETATION IS THAT GOVERNMENT MAY HAVE NOTED CVP IS HAVING DIFFICULTIES SELLING ITS OIL AT CURRENT HIGH PRICES AND, RATHER THAN LOWERING PRICES OR SUFFERING EMBARRASSMENT OF HAVING STATE OIL COMPANY PRODUCTION SHUT IN FOR LACK OF MARKET, PREFERRED TO ADOPT RESTRICTIONS ON ALL COMPANIES.

4. TEST OF SINCERITY OF VENEZUELAN GOVERNMENT'S AFFIRMATIONS THAT CONSERVATION RESTRICTIONS ARE TRULY FOR PURPOSE OF CONSERVATION WILL COME DURING NEXT FEW MONTHS. ANSWER WILL BECOME EVIDENT WHEN WE SEE WHETHER GOVERNMENT PERMITS COMPANIES WHICH ARE ABLE TO EXPAND GAS REINJECTION CAPACITY (THEREBY AVOIDING POTENTIAL FOR WASTAGE) TO RESTORE OIL PRODUCTION TO PREVIOUS LEVELS. SUN HAS GAS INJECTION FACILITIES NEARING COMPLETION, WHICH SHOULD BE ON STREAM WITHIN THREE MONTHS AND IS UNDERSTANDABLY IRATE TO SE ITS PRODUCTION SHUT IN WHEN SUCH FACILITIES ARE SO CLOSE TO BEING READY FOR USE. CREOLE ALSO HAS NUMBER OF SMALL REINJECTION PLANTS THAT ARE EXPECTED TO BE READY TO GO ON STREAM BY END OF YEAR. CREOLE PRESIDENT DOLPH IS KEEPING HIS FINGERS CROSSED BUT PROCEEDING FOR NOW ON ASSUMPTION THAT HE WILL BE PERMITTED TO MAKE USE OF THESE FACILITIES, WHICH HAVE BEEN APPROVED BY MINISTRY, TO INCREASE PRODUCTION. SHELL PRESIDENT WETHERELL IS SKEPTICAL THAT COMPANIES WILL EVER BE PERMITTED TO INCREASE PRODUCTION TO PREVIOUS LEVELS, EVEN IF THEY ARE WILLING TO INSTALL NECESSARY GAS CONSERVATION FACILITIES.

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